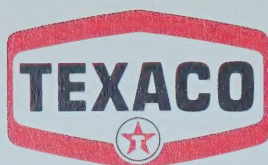


AR25

Texaco Canada Limited Annual Report 1977



50th
Anniversary
1927-1977



Officers

R. W. Sparks
President and Chief Executive Officer
J. L. Morrison
Executive Vice-President
O. C. Cleyne
*Vice-President, Eastern Canada
and Region Manager*
A. J. Galipeault
Vice-President and General Counsel
H. T. Hudson
Vice-President and Treasurer
J. G. Light
Vice-President, Refining
J. C. Wattie
*Vice-President and General
Manager, Marketing*
E. J. Little
Secretary
D. L. West
Comptroller

Subsidiary Companies

Regent Refining (Canada) Limited
Tolhurst Petroleum Ltd.
Independent Petroleum (1970) Ltd.
Chartier Petroleum Ltd.
McColl-Frontenac Oil Co. Ltd.
Public Fuel Transmission Systems
Limited
Oilship Limited

Principal Investments and Percentage Interest

Federated Pipe Lines Ltd.	50 %
Trans-Northern Pipe Line Company	33.33%
Alberta Products Pipe Line Ltd.	20 %
Montreal Pipe Line Company Limited	16 %
Norfolk Oil Limited	50 %
The Great Eastern Oil & Import Co. Limited	48.94%

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Texaco Canada Limited
90 Wynford Drive
Don Mills, Ontario M3C 1K5

Transfer Agents in Canada:

Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Registrars in Canada:

The Royal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Transfer Agents and Registrars in the United States:

The Royal Bank of Canada
Trust Company
68 William Street, New York, N. Y.

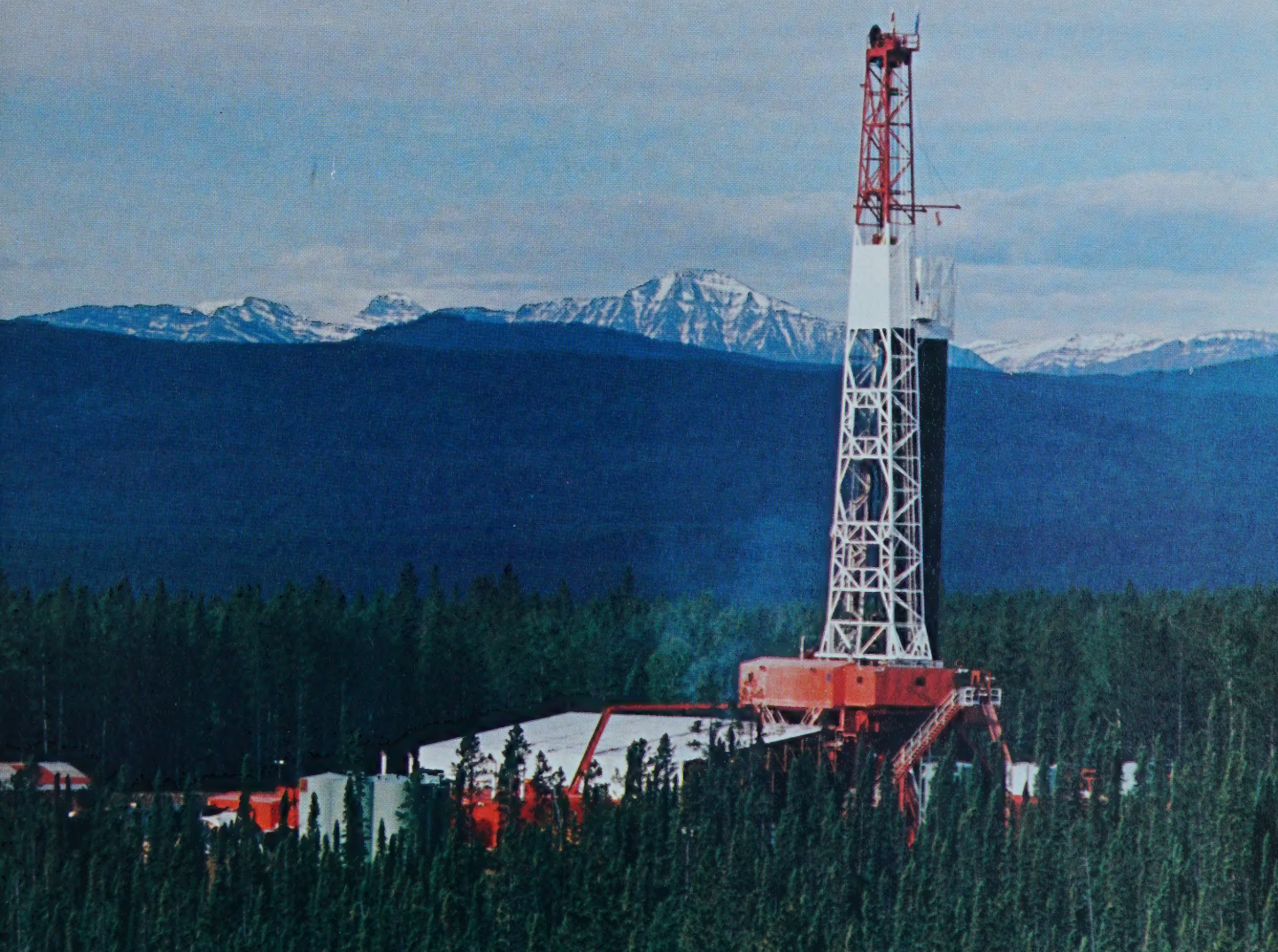
Texaco Canada observed the 50th anniversary of its incorporation in December, 1977. During the half-century, the company has operated under the three symbols featured on the cover: The McColl-Frontenac logo was in use until 1947 when the red star and green "T" was adopted nation-wide. It was succeeded, in 1966, by the modern hexagonal design.

*On peut obtenir un exemplaire
français du présent rapport annuel
en s'adressant au secrétaire de la
compagnie,
90 Wynford Drive
Don Mills, Ontario M3C 1K5*

The use in this report of such terms as *Texaco Canada, Company, organization, we, us, our* and *its*, when referring to Texaco Canada Limited or to its subsidiaries and affiliates either individually or collectively, is only for convenience and is not intended to be an accurate description of corporate relationships.

Highlights

	1977	1976
Financial (Dollars expressed in thousands)		
Gross income	\$1,082,807	\$ 997,383
Net income	\$ 36,663	\$ 28,982
Number of common shares outstanding	9,715,359	9,715,359
Net income per common share	\$3.76	\$2.97
Cash dividends paid on common stock	\$ 15,156	\$ 15,156
Cash dividends per common share	\$1.56	\$1.56
Shareholders' equity (end of year)	\$ 421,406	\$ 400,049
Total assets (end of year)	\$1,142,551	\$ 940,602
Working capital (end of year)	\$ 114,497	\$ 104,351
Property, plant and equipment expenditures	\$ 187,003	\$ 175,301
Operating (Barrels daily)		
Gross production of crude oil and natural gas liquids	28,100	30,000
Refinery runs	157,500	145,100
Petroleum product sales	173,600	186,000



Financial

Earnings

Consolidated net income of \$36.7 million in 1977 was an increase of \$7.7 million from the 1976 earnings of \$29.0 million. Net income per common share amounted to \$3.76 in 1977 compared to \$2.97 in the previous year.

Dividends

Cash dividends paid by the company on its common shares totalled \$15.2 million or \$1.56 a share in 1977, the same amount as in 1976.

Gross Income

Consolidated gross income for 1977 amounted to \$1,082.8 million, or 8.6% higher than the \$997.4 million in

1976. Sales and services contributed \$1,072.8 million to gross income in 1977 compared with \$989.3 million in 1976. Other income amounted to \$10.0 million in 1977, compared with \$8.1 million for the previous year.

Costs and Other Deductions

Costs and other deductions, excluding taxes, totalled \$940.8 million in 1977. This was an increase of 7.9% over the \$871.7 million in 1976.

Taxes

Total taxes paid or accrued amounted to \$456.5 million in 1977, an increase of 2.4% over the \$445.7 million in 1976. Direct taxes of \$154.5 million and \$138.9 million for 1977 and 1976 respectively, consist of current and deferred income taxes, oil and gas production royalties, sales and use taxes, property taxes, import duties and

other governmental levies. Also included in total taxes is \$302.0 million in taxes on petroleum products collected on behalf of provincial and federal governments during 1977, compared to \$306.8 million in 1976.

Property, Plant and Equipment Expenditures

Expenditures for property, plant and equipment were \$187.0 million in 1977, an increase of \$11.7 million over the expenditures in 1976. Gross investment in property, plant and equipment at year-end of \$948.4 million was 22.7% higher than the \$772.8 million at the end of 1976.



Visitors to the Executive Offices building in Don Mills examine display of photographs and other exhibits showing the growth of Texaco Canada and its predecessors since 1873.

Total Assets

The company's total assets at year-end 1977 amounted to \$1,142.6 million, an increase of 21.5% from the total of \$940.6 million a year earlier.

Working Capital

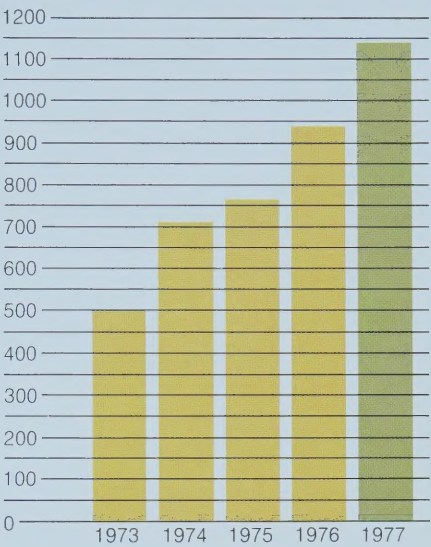
Working capital amounted to \$114.5 million at the end of 1977, an increase of \$10.1 million over 1976.

Long-Term Debt

During 1977 the company increased its long-term debt with the issuance of an 8⁷/₈% note, for \$125.0 million, due \$25.0 million annually, 1981-1985. At year-end the long-term debt amounted to \$304.4 million compared with \$180.5 million a year earlier.

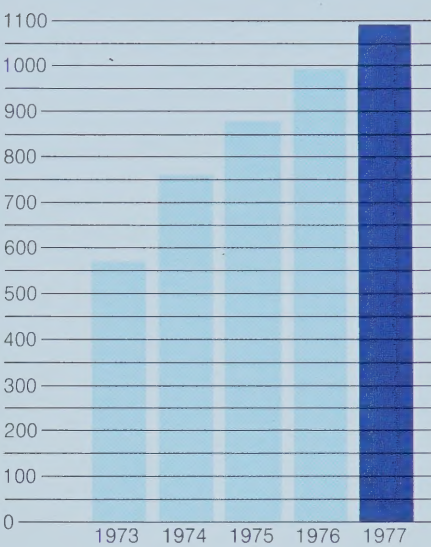
Total Assets

Millions of dollars



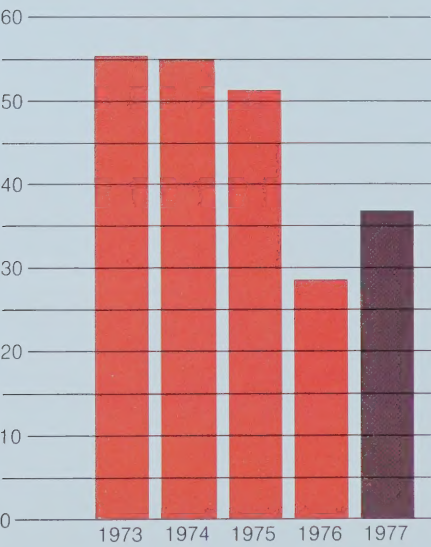
Gross Income

Millions of dollars



Net Income

Millions of dollars

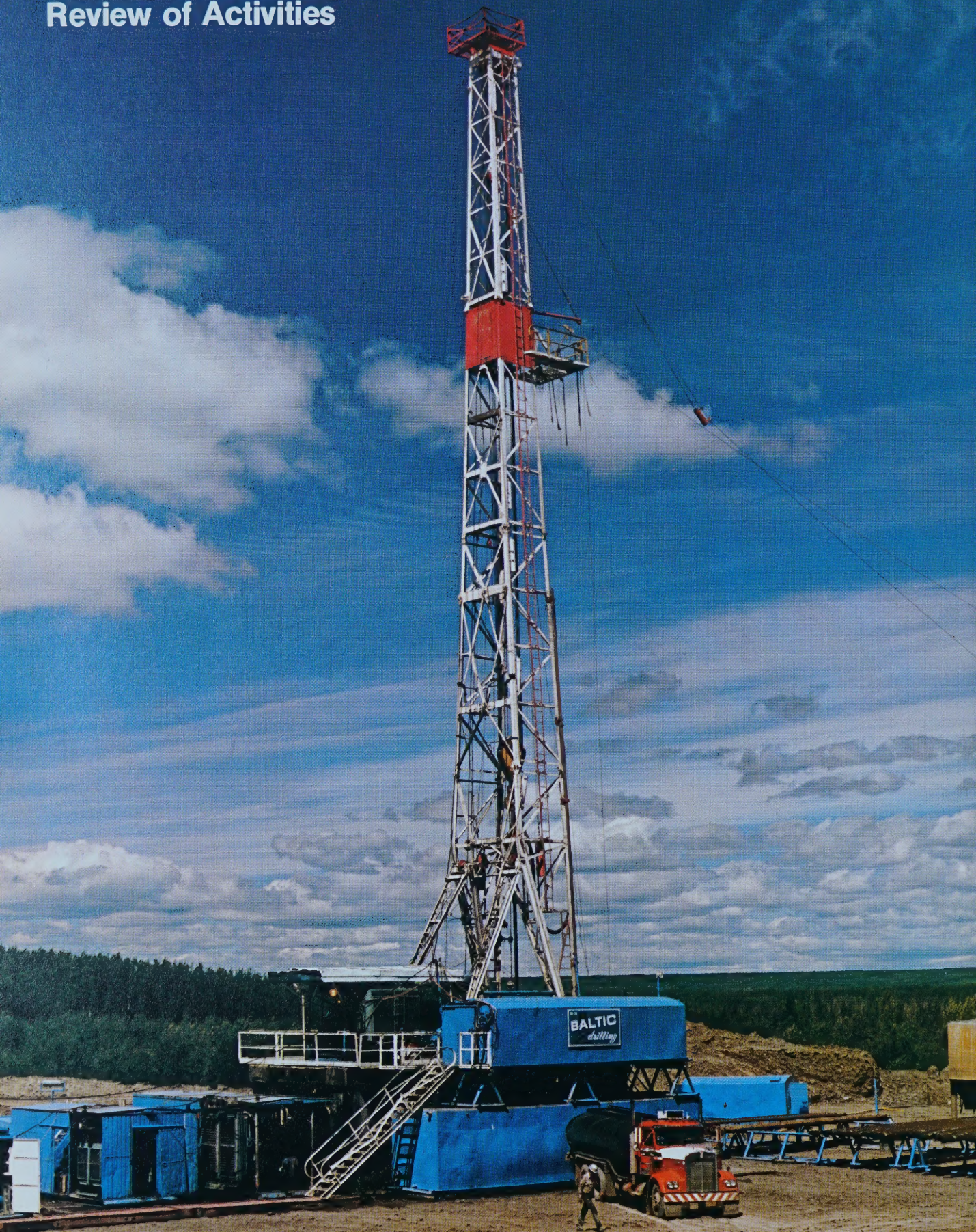


Total Taxes and Royalties

Millions of dollars



Review of Activities



Exploration and Production

Texaco Canada's gross production of crude oil and natural gas liquids decreased in 1977 by 6.5% to an average of 28,100 barrels daily. The decline reflected a reduction in exports of light and medium crude oil, in accordance with National Energy Board policy. The company's net production declined by 8.3% to 18,200 barrels per day, due to lower gross production and higher government royalties.

The company completed seismic programs in central Alberta, and in a large acreage block in deep waters offshore from the east coast of Newfoundland. Geological studies continued with the main emphasis being on Alberta, British Columbia, and the eastern seaboard.

In Alberta, lease acreage was earned at Mikkwa by farm-in drilling. Leases and licenses covering approximately 38,000 net acres considered as having gas potential were purchased at Elmworth and Knopcik. Other leases were purchased at Open Creek, West Pembina and Meekwap, and 211,000 net permit acres were acquired by assignment off the east coast.

The company surrendered the major portion of its holdings at Tsoko Lake, in the Northwest Territories, while retaining some 189,000 acres which are considered to offer better prospects for future exploration. Reductions due to lease selections were made at North Goodwin, Sturgeon Lake and Mikkwa in Alberta, while farmouts at Knopcik, Wapiti River, North Goodwin and Sturgeon Lake Valleyview also reduced acreage. Texaco Canada held a total of 1,261,000 net acres at the end of 1977. In addition, the company held varying royalty interests in 671,000 acres.

Texaco Canada participated in the drilling of 31 wells in 1977. These resulted in four oil wells, 23 gas wells, and four dry holes.

Opposite page: Drilling rig works for Texaco Canada near Elmworth, Alberta, where the company has net holdings of approximately 167,000 acres.



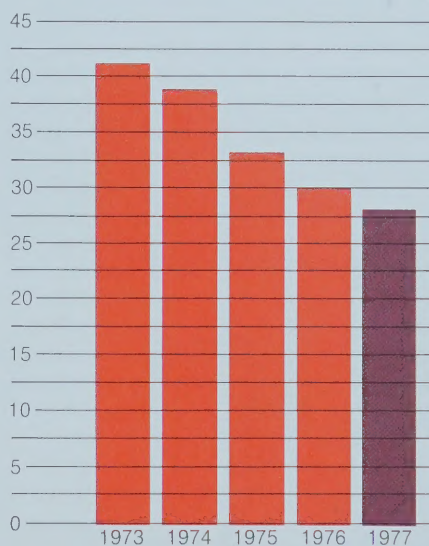
Geologist examines core from coal test well in the Pembina field in Alberta as part of program to evaluate coal seams in the area.

In addition, 11 wells were drilled on land in which the company has a royalty interest — resulting in one oil well, six gas wells and four dry holes. The portions of this drilling program that met with the most success during the year were in the Elmworth-Valhalla-Brainard region — where 19 wells were indicated to be potential gas wells out of 20 in which drilling was completed — and at West Pembina, where two deep exploratory wells resulted in oil discoveries in the Cynthia block of leases.

The company was particularly successful in increasing its reserves of natural gas in 1977 through drilling and land acquisitions. Additions to reserves of crude oil and natural gas liquids were insufficient to offset production, although the life index of these reserves remained at approximately 13 years.

Gross Production/Crude Oil & Natural Gas Liquids

Thousands of barrels daily





Refining

Crude runs at the company's four operating refineries averaged 157,500 barrels a day in 1977, an increase of 8.3% over the previous year.

To meet future demands for refined products, various construction activities were continued or initiated during the year. The 'grass roots' refinery being built at Nanticoke was 85% completed at year-end. This highly sophisticated refining complex is designed to process 95,000 barrels per day of crude oil and provide a full range of gasolines, fuel oils and liquefied petroleum gases for the Canadian market. During 1977 experienced operating and maintenance personnel were transferred to the site from other refineries and new employees were hired. Since the fall they have been engaged in training and familiarization programs in preparation for the start-up in mid-1978. The plant is expected to be fully operational by the fourth quarter of 1978.

Expansion of crude processing capacity at other locations included the completion of a project to increase the Halifax plant from

Crude Oil Processed
Thousands of barrels daily



Hundred-foot tower is lifted into place as part of catalytic reformer expansion at Montreal plant.

18,000 to 20,000 barrels a day. Construction work was continued at the Edmonton plant to increase its capacity from 21,000 to 24,000 barrels daily in 1978.

The company's output of lead-free gasoline rose in 1977 by about 60% to 13,000 barrels daily. Work is underway at the four operating refineries to provide for future additional demand for this product.

Modifications to the Montreal refinery's fluid catalytic cracking unit, which will further improve gasoline quality while also contributing to environmental protection by reducing emissions of waste gas, are presently in the design stage. At all plants, programs of design and construction for additional handling and treating of waste water are underway. These projects will ensure that effluents meet government requirements for quality.

Numerous measures to increase equipment efficiency and reduce energy consumption at all plants were undertaken as part of the company's continuing program to conserve energy.



Quality control and testing being carried out in this plant laboratory are an important part of the refining process.

Opposite page: Construction of Nanticoke refinery was 85% complete at year-end. The 95,000 barrels per day plant is expected to be fully operational by the fourth quarter of 1978.



Transportation

Texaco Canada transported an average of 365,000 barrels per day of crude oil and petroleum products during the year.

The new tanker *Texaco Brave* went into service in March, 1977. The 9,500 deadweight ton vessel, the largest of the company's three tankers, has several unique features which provide for greater cargo handling efficiency, including segregated ballast tanks and deep-well hydraulic pumps in each cargo tank.

The three ships moved an average of 21,700 barrels of products daily, an increase of 47% over the volume moved in the company's vessels in 1976. As a result of this increase, the company was able to reduce the quantity previously handled by chartered vessels.

The Montreal Pipe Line Company Limited, in which the company has a 16% interest, transported a lower volume of crude oil in 1977 than in the previous year from terminal facilities at Portland, Maine. This reduction reflected the increasing displacement of offshore crude oil by western Canadian crude, which moved in larger quantities to Montreal refineries through the Interprovincial Pipeline extension.

Federated Pipe Lines Limited, 50% owned by Texaco Canada, moved a lower volume of crude oil to Edmonton from the Swan Hills area because of additional reductions in allowed exports to the United States.

Alberta Products Pipe Line Limited, 20% owned, carried a record volume of products between Edmonton and Calgary during the year. Jet fuels now move directly through this line to a new terminal facility at Calgary International Airport.

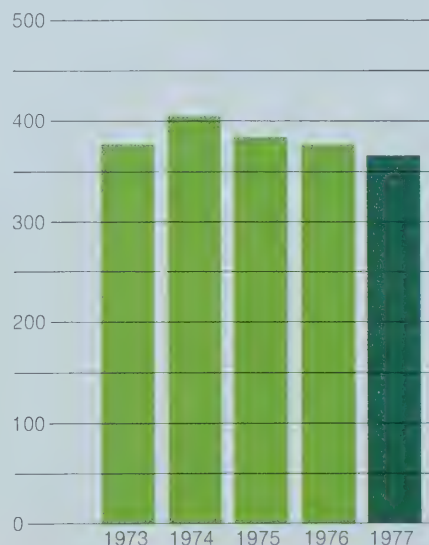
Trans-Northern Pipe Line Company, one-third owned, built a 37-mile



Crewman operates bow thruster control on bridge of *Texaco Brave*. It facilitates sensitive manoeuvring at close quarters.

Transportation of Raw Materials and Products

Thousands of barrels daily



extension in Ontario from Hamilton to the Texaco refinery site at Nanticoke. The extension will permit pipeline movement of products from Nanticoke plant through much of southern Ontario. In conjunction with this extension, Interprovincial Pipeline Limited completed a 26-mile lateral line from Mount Hope, southwest of Hamilton, to enable the Nanticoke refinery to receive Canadian crude oil supplies from Edmonton.

Opposite page: Product and crude oil pipeline extensions are laid to Nanticoke plant.



Marketing

Sales of petroleum products averaged 173,600 barrels daily in 1977, a decrease of 6.9% from the previous year.

Diesel fuel volumes and retail gasoline sales were higher than in 1976. Other sales declined, partly due to a planned reduction of volumes which were not providing satisfactory profit margins and also because of lower burning oil sales resulting from periods of comparatively warmer weather.

The number of self-service gasoline outlets was increased during the year in response to a growing market demand. The company's program of introducing lead-free gasoline at retail outlets was virtually completed in all principal market areas of Canada.

New marketing concepts were introduced incorporating specialized lubrication bays, improved retailing techniques and convenience stores.

Improvements were made to the system of handling travel card in-

quiries through the use of "on-line" computer information equipment.

Membership in the company's Canadian Motor Club increased during 1977. The club offers a wide variety of services to Texaco Travel Card holders at a low monthly charge.

The company opened its first metric service station on a test basis. Service stations will begin selling gasoline and diesel fuel in litres after January 1, 1979, and it is expected that the program of conversion to the metric system of measurement will be completed by the end of 1980.

The company continued to strengthen its distribution network in the the farm and heating oil markets throughout Canada. A program of home comfort analysis was introduced to help customers heat their homes as economically as possible and to provide consultation and service in connection with home insulation.

Ursa Super Plus — a new multi-purpose industrial motor oil meeting

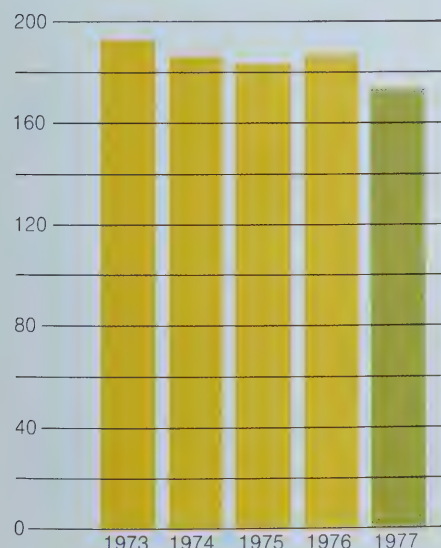
all manufacturers' extended drain recommendations — was introduced to commercial users.

The company continued its program of improving the distribution of its bulk and packaged products. Particular emphasis was placed on the consolidation of distribution points and on increased fleet transportation efficiency.

During 1977, Texaco Canada sponsored two televised opera broadcasts live from the Metropolitan Opera House in New York City. The company also began its 38th consecutive season of sponsoring Metropolitan Opera broadcasts on the English and French language radio networks. This is the longest sponsorship of one program by the same company in the history of Canadian radio.

Texaco Canada also continued to sponsor radio broadcasts of Montreal Expos baseball. In addition, the company became a sponsor during 1977 of radio broadcasts of Toronto Blue Jays baseball games.

Sales of
Petroleum Products
Thousands of barrels daily



Above: Texaco Canada fuels Concorde supersonic aircraft at opening of new facilities at Calgary International Airport.



Left: Booth at Carrefour Laval shopping centre near Montreal offers shoppers free home heating system analysis, and promotes the company's fuel oil services. Similar displays were mounted at other shopping centres.

Opposite page: New service station near Toronto combines self-serve gasoline outlet with specialized lubrication bay.

Employee Relations

Texaco Canada had 3,853 employees at year-end compared with 3,841 at the close of 1976. Payroll and employee benefit costs amounted to \$79 million in 1977, compared with \$73.7 million a year earlier.

Employee relations programs and activities in the fields of manpower planning and development were continued. Accident prevention and loss control continued to be emphasized.

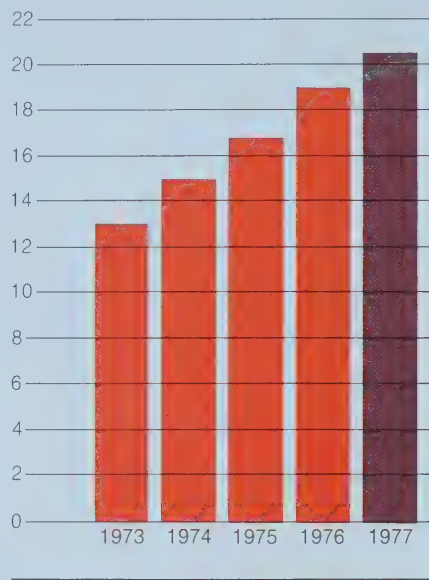
Under the company's education assistance program 134 employees received tuition reimbursements.

Twenty university scholarships were awarded to sons and daughters of employees, bringing to 221 the number awarded under the Merit Scholarship program since it began in 1966.

At year-end there were 583 active personnel with 25 or more years of company service. Fifty-nine of these employees received the 25-year service award in 1977. The retirement of 60 employees during the year brought the number of retired employees to 525 at the end of 1977.

Salaries, Wages and Benefits per Employee

Thousands of dollars



Public Affairs

Texaco Canada communicated with governments, educators, students, customers and the general public on a wide variety of subjects as oil industry activities continued to attract public attention. The company's views on energy conservation, revenue sharing, environmental realism, and price controls were distributed through company publications, releases to the news media, and statements by company officials.

At Nanticoke, Ontario, where the company's new refinery is nearing completion, the community relations program was supplemented by site tours, speeches, audio-visual presentations and media interviews.

Tours of the company's new tanker, the "Texaco Brave", were organized for employees and their families and friends. More than 2,200 visited the vessel as it held "open house" at Toronto, Montreal, Quebec City and Halifax.

The company's 50th Anniversary was publicized through news releases, visual displays and employee and retailer publications.

Texaco Canada again provided financial support to many causes in the fields of education, health, community service, culture and youth work in all parts of the country through its corporate donations program.

Employees and friends board *Texaco Brave* for "open house" tour of the new vessel shortly after it went into service in 1977.





A half-Century of Growth and Progress

Texaco Canada Limited marked its 50th Anniversary on December 21, 1977. McColl-Frontenac Oil Company Limited was incorporated under Dominion of Canada charter on December 21, 1927. The corporate name was changed to Texaco Canada Limited in 1959.

The incorporation resulted from the merger of McColl Brothers Limited, of Toronto, and Frontenac Oil Refineries Limited, of Montreal. The antecedents of McColl go back much further to 1873, only six years after Confederation, to a partnership in Toronto between John B. McColl and William Anderson for the manufacture of lubricating oil and what was then appropriately referred to as "illuminating" oil.

In the 50 years since 1927, the company's gross income and assets have both grown to more than \$1 billion from levels of \$10 million and \$21 million respectively. Its operating facilities have also expanded and multiplied: from small refineries in Toronto and Montreal, some marketing facilities and two low-capacity lake tankers, to a network of four refineries, two blending and grease plants, some 3,900 retail outlets across the country, three modern tankers, extensive oil and gas exploration and producing interests, particularly in western Canada, and varying interests in four pipelines.

The same 50 year period also saw the petroleum industry as a whole make rapid strides as refinery runs increased about 40-fold, Canadian consumption of petroleum by 30-fold, and production of crude oil and natural gas liquids by more than 1,000 per cent.

After McColl-Frontenac was formed, the new company began taking steps to help meet the growing Canadian demand for petroleum products and facilities. The Montreal and Toronto refineries were enlarged, and an ambitious service station expansion program was launched in southern

"Before" and "after" view of same service station site — almost half a century apart.

Photo below, left, shows McColl-Frontenac "Red Indian" station at de Maisonneuve Boulevard and Metcalfe Street in Montreal which was typical of the company's service stations in the early 1930's.

Right: The same service station site today.





Ontario and Quebec and in urban areas of Manitoba, Saskatchewan and the Maritime Provinces.

McColl-Frontenac in 1929 bought controlling interest in Perfection Petroleum Co. Ltd., based in Toronto, with 35 service stations. Perfection soon displayed the new McColl-Frontenac trademark — the Indian head with feathered headdress — and by the end of 1929 McColl-Frontenac had 188 company-owned service stations in eastern Canada and a large network of jobbers, consignees and independent service stations.

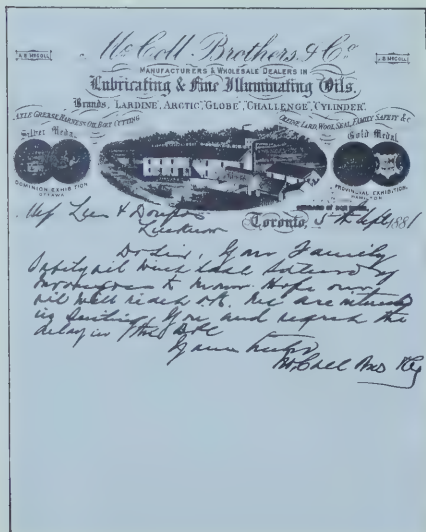
Total product sales volume rose from some 50 million gallons in 1929 to about 122 million gallons in 1935.

The high rate of growth in the mid to late 1930's placed severe strain on the capital available to McColl-Frontenac.

Right: Montreal refinery had a rated capacity of 3,500 barrels per day when this photograph was taken in 1928, the year after the company's incorporation. Capacity has since been increased to 74,500 barrels daily.

Below right: Officials meet in Edmonton following purchase of The Texas Company of Canada Limited by McColl-Frontenac in 1939.

Below: Typical letter written in 1881 on stationery of McColl Brothers & Co., a Texaco Canada antecedent.



Being committed to continued growth, the company's directors decided the time had come for McColl-Frontenac to become part of a larger, international organization that would have access to the capital needed for such expansion. Investment by The Texas Company in McColl-Frontenac shares was encouraged and by the spring of 1938 The Texas Company (later to become Texaco Inc.) had acquired 35 per cent of the McColl-Frontenac common shares.

One of the first uses of additional capital made possible as a result of The Texas Company's investment was the purchase by McColl-Frontenac of The Texas Company of Canada Limited in 1939.

This acquisition brought to McColl-Frontenac a strong marketing network in Saskatchewan, Alberta and British Columbia. Empire Oil Co., Winnipeg, was also acquired about this time.

McColl-Frontenac was now marketing gasoline and other products across the country, through some 4,000 retail outlets. Product sales rose to 226 million

gallons in 1941, of which 124 million was gasoline. The company introduced Texaco brand names.

Refinery capacities were increased to keep pace with the sales requirements. Between 1935 and 1944 the Toronto Plant was expanded from 4,000 to 12,000 barrels a day. During this period the Montreal Plant was also expanded from 11,200 to 18,000 barrels daily. At both refineries polymerization units were placed in service in 1942 and other process improvements were carried out during the years of World War II. Construction of a fluid catalytic cracking unit was begun at Montreal in 1946 and by that time crude oil was being imported from the United States, Colombia and Venezuela. Completed in 1948, this catalytic cracking unit increased the rated capacity of the Montreal refinery from 24,000 to 40,000 barrels daily. The Toronto plant closed in 1949.

During World War II the company, under government directive, allocated an



increasing proportion of its refinery throughput to military use. Production of aviation gasoline, for instance, reached 26 million gallons in 1943.

Among the many employees who entered military service in the early years of World War II was the late W. A. "Billy" Bishop, Canada's famed World War I flying ace. At the outbreak of war in 1939 he was a Vice-President of McColl-Frontenac but soon was recalled into service at R.C.A.F. headquarters in Ottawa with the rank of Air Marshall.

A crude oil exploration and development subsidiary had been launched in 1943, and in 1954 McColl-Frontenac established its own producing department in Calgary.

The company's new refinery at Edmonton went on stream in 1951, and the new Halifax (Eastern Passage) refinery was completed and went into production in 1963 with a rated capacity of 13,500 barrels daily.

The company had acquired a majority

interest by 1957 in Regent Refining (Canada) Limited, which provided McColl-Frontenac with the Port Credit refinery and a major addition to its Ontario marketing network. Subsequently, Regent Refining (Canada) Limited became a wholly-owned subsidiary.

The rated capacity of the Montreal refinery was increased from 40,000 in 1950 to 59,000 barrels daily in 1957.

In the 1950's and 1960's, heavy emphasis was placed on expansion of marketing facilities.

In 1958 McColl-Frontenac shareholders approved a change of name which would offer the benefit of aligning the company's identification with the world-wide Texaco organization, and the familiar red star and green "T" became the company's trademark. The change in the corporate name to Texaco Canada Limited took effect February 2, 1959.

Texaco Canada moved into Newfoundland, the only province where it had not

previously been represented, in 1960 when it acquired a financial interest in The Great Eastern Oil & Import Co. Limited.

In 1960, also, the company entered the aviation service field with the construction of Sky Service Centres at Toronto, Montreal and Edmonton international airports. Similar facilities were added later at Calgary, Vancouver and St. John's, Newfoundland.

Among the most significant activities in the 1970's has been construction of the "grass roots" refinery at Nanticoke, on Lake Erie, which will go on stream



The McColl-Frontenac "Red Indian" symbol was a familiar sight at company service stations until the 1940's.

Above: An early *Texaco Warrior* refuels the Royal Yacht Britannia in 1959.

Left: The latest vessel to bear the name *Texaco Warrior*, which was acquired in 1975, is pictured on recent duty off Halifax.



in 1978. This new plant will play an important role in meeting the future petroleum product requirements of Ontario. Meanwhile, further expansion of the Montreal refinery in 1976 increased the capacity of this plant from 73,000 to 74,500 barrels daily.

Also in this decade Texaco Canada brought two new tankers into service, bringing the combined deadweight tonnage of its three vessels to 21,000 tons. The "Texaco Warrior", an existing ship, was purchased, overhauled, re-named and placed in service in 1975. The "Texaco Brave", Texaco Canada's largest and newest tanker, was built to the company's specifications and sent into service in 1977.

Texaco Canada became, in 1976, the major participant — with a 40 per cent interest — in a \$20 million group commitment to drill in deep waters 150 miles east of St. John's, Newfoundland. The group, by fulfilling its commitment, will earn a 50% interest in some 5.5 million acres. The company also continued its emphasis on exploration and production in western Canada. These expenditures were increased very substantially in 1977, mostly for exploration, drilling and land acquisitions in the Elmworth and West Pembina areas of Alberta.

During the five years ended December 31, 1977 Texaco Canada participated in the drilling of 100 wells, and an additional 45 wells were drilled on lands in which the company holds royalty interests.

The company's record of growth and progress in its first 50 years — only the highlights of which are contained in these pages — is one that could not have been attained without the loyalty and dedicated efforts of its employees and the continued confidence and support of its shareholders and customers.

Above right: Self-serve gasoline outlets have become increasingly popular in Canada in recent years.

Right: The 95,000 barrels a day refinery nearing completion at Nanticoke, Ontario. It is the largest project ever undertaken by Texaco Canada.

Milestones . . . in the history of Texaco Canada

1873 John B. McColl and William Anderson form partnership in Toronto to manufacture lubricating and "illuminating" oils.

1876 Firm becomes McColl Brothers and Company, selling oils, paints and varnishes.

1918 McColl Brothers acquires a federal charter as a private limited liability company. Gasoline added to product line.

1927 McColl Brothers Limited and Frontenac Refineries Limited are merged to form McColl-Frontenac Oil Company Limited. Dominion charters granted. Company markets "Red Indian" brand gasolines and lubricating oils.

1938 The Texas Company acquires control of McColl-Frontenac.

1939 McColl-Frontenac acquires the Texas Company of Canada Ltd.

1943 Red Indian Exploration and Development Co., is established as a subsidiary, with lease acreage in Alberta. Exploration program is launched.

1946 Interest is acquired in Montreal Pipe Line Co. and Portland Pipe Line Co. Ltd.

1951 Edmonton refinery goes on stream.

1951 One-third interest in Trans-Northern Pipe Line Co. is acquired.

1953 McColl-Frontenac establishes its own Producing Department in Alberta.

1957 McColl-Frontenac acquires control of Regent Refining (Canada) Limited.

1958 McColl-Frontenac enters into joint partnership to form Federated Pipe Lines Ltd.

1959 Corporate name is changed to Texaco Canada Limited.

1963 Halifax refinery goes on stream.

1970 Interest acquired in Alberta Products Pipe Line Ltd.

1974 Construction work commences on new 95,000 barrels a day refinery at Nanticoke, Ontario.



Consolidated Statement of Income

for the years ended December 31, 1977 and 1976

(Dollars expressed in thousands)

	1977	1976
Gross Income		
Sales and services	\$1,072,815	\$ 989,308
Income from investments (Note 1)	6,227	4,383
Other income	3,765	3,692
	<u>\$1,082,807</u>	<u>\$ 997,383</u>
Deductions		
Costs and operating expenses	\$ 781,871	\$ 727,964
Selling, general and administrative expenses	109,538	104,815
Depreciation, depletion, and amortization	19,273	19,147
Interest charges		
Long-term debt (Note 2)	19,131	14,363
Other	11,002	5,409
*Taxes, other than income taxes	75,769	64,811
**Provision for income taxes — current	(1,459)	(4,990)
— deferred	31,019	36,882
	<u>\$1,046,144</u>	<u>\$ 968,401</u>
Net Income for the Year	<u>\$ 36,663</u>	<u>\$ 28,982</u>
Net income per common share	\$3.76	\$2.97

*In addition, federal excise tax, provincial motor fuel and oil taxes collected from consumers were paid or accrued in the amounts of \$301,998 during 1977 and \$306,785 during 1976.

**Provision for income taxes in 1977 reflects a credit of \$2,261 equal to \$0.23 per common share resulting from the Federal Government's inventory allowance in computing income for income tax purposes.

See accompanying accounting policies and notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

for the years ended December 31, 1977 and 1976

(Dollars expressed in thousands)

	1977	1976
Balance at beginning of year	\$ 362,935	\$ 349,259
Add —		
Net income for the year	36,663	28,982
Deduct —		
Dividends declared		
Preferred stock (\$4.00 per share in		
1977 and 1976)	150	150
Common stock (\$1.56 per share in		
1977 and 1976)	15,156	15,156
Balance at end of year	\$ 384,292	\$ 362,935

See accompanying accounting policies and notes to consolidated financial statements.

Texaco Canada Limited and Subsidiary Companies

Consolidated Balance Sheet

December 31, 1977 and 1976

(Dollars expressed in thousands)

	<u>1977</u>	<u>1976</u>
Assets		
Current Assets		
Cash	\$ 1,446	\$ 3,283
Accounts receivable	172,472	178,038
Inventories		
Crude and refined oil products and merchandise	201,265	158,276
Materials and supplies	2,636	2,402
Total current assets	<u>\$ 377,819</u>	<u>\$ 341,999</u>
Investment and Advances (Note 1)	<u>\$ 33,667</u>	<u>\$ 33,820</u>
 Property, Plant and Equipment, at cost		
Producing	\$ 113,353	\$ 97,149
Manufacturing	577,849	427,120
Marketing	234,194	230,370
Marine	19,871	15,041
Other	3,139	3,085
	<u>\$ 948,406</u>	<u>\$ 772,765</u>
 Less: Accumulated depreciation, depletion, and amortization	<u>221,743</u>	<u>210,913</u>
Net property, plant and equipment	<u>\$ 726,663</u>	<u>\$ 561,852</u>
 Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization	\$ 1,406	\$ 1,735
Prepaid expenses and other deferred charges	2,996	1,196
Total deferred charges	<u>\$ 4,402</u>	<u>\$ 2,931</u>
	<u><u>\$1,142,551</u></u>	<u><u>\$ 940,602</u></u>

See accompanying accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

Current Liabilities

	1977	1976
Bank indebtedness, including \$20,000 demand loan	\$ 24,924	\$ —
Notes payable and long-term debt due within one year		
Affiliated company	66,094	76,009
Other	24	23
Accounts payable and accrued liabilities		
Affiliated companies	65,554	62,691
Other	68,052	61,401
Sales, motor fuel and other taxes	38,636	37,486
Dividends payable	38	38
Total current liabilities	\$ 263,322	\$ 237,648
Long-Term Debt (Note 2)	\$ 304,432	\$ 180,533
Deferred Income Taxes	\$ 153,391	\$ 122,372

Shareholders' Equity

Preferred Stock

4% Cumulative redeemable preferred shares of \$100 par value (redeemable at Company's option at \$102.50 on thirty days' notice)		
Authorized — 77,500 shares		
Issued — 37,500 shares	\$ 3,750	\$ 3,750

Common Stock and Retained Earnings

Common shares of no par value		
Authorized — 14,926,578 shares		
Issued — 9,715,359 shares	\$ 33,364	\$ 33,364
Retained earnings	384,292	362,935
Total common stock and retained earnings	\$ 417,656	\$ 396,299
	<u>\$1,142,551</u>	<u>\$ 940,602</u>

Approved on behalf of the Board:

R. W. Sparks, Director

Stanley D. Clarke, Director

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1977 and 1976 (Dollars expressed in thousands)

	1977	1976
Source		
Net income	\$ 36,663	\$ 28,982
Depreciation, depletion, and amortization	19,273	19,147
Provision for income taxes — deferred	31,019	36,882
Excess of equity in earnings of non-subsidiary companies over dividends (Note 1)	(1,592)	(575)
Provided by operations	\$ 85,363	\$ 84,436
Additions to long-term debt (Note 2)	125,000	75,000
Property, plant and equipment retirements and sales	2,875	2,324
Other (net)	318	3,185
	<u>\$213,556</u>	<u>\$164,945</u>
Disposition		
*Property, plant and equipment expenditures	\$187,003	\$175,301
Reduction in long-term debt (Note 2)	1,101	1,101
Dividends paid — preferred stock	150	150
— common stock	15,156	15,156
	<u>\$203,410</u>	<u>\$191,708</u>
Increase (Decrease) in Working Capital	\$ 10,146	\$ (26,763)
Working Capital		
At beginning of year	104,351	131,114
At end of year	<u>\$114,497</u>	<u>\$104,351</u>
*Property, plant and equipment expenditures		
Producing	\$ 17,844	\$ 5,318
Manufacturing	151,267	154,050
Marketing	12,872	15,322
Marine	4,830	409
Other	190	202
	<u>\$187,003</u>	<u>\$175,301</u>

See accompanying accounting policies and notes to consolidated financial statements.

Accounting Policies

Principles of Consolidation

The accounts of Texaco Canada Limited and subsidiary companies are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.

United States dollar balances included in current assets and current liabilities have been translated to Canadian dollars at the rate of exchange at the end of each year. Long-term debt payable in United States dollars has been translated at rates of exchange in effect when the notes were issued.

Inventories

Inventories of crude and refined oil products and merchandise are stated at cost, determined on the first-in, first-out method, which in the aggregate are valued lower than market. Materials and supplies are stated at cost.

Investments and Advances

The Company uses the equity method of accounting for its investments in companies owned 50%, and for all significant corporate joint ventures owned less than 50%. Under this method, the Company's equity in earnings or losses of these companies is reflected currently in income rather than when realized through dividends. Investments in companies accounted for by this method reflect the Company's equity in the underlying net assets of the companies.

Investments in other non-subsiary companies are reported at cost, and the Company's interest in the net earnings of these companies is reflected in net income when realized through dividends.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization of property, plant and equipment related to exploration and producing activities are determined on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves. With respect to exploration activities, the Company capitalizes lease acquisition costs and costs related to the exploration for, and development of, oil and gas reserves. As a result, finding and development costs are allocated to the periods in which revenue is recognized as the oil and gas reserves are produced and sold. For operations other than exploration and producing, depreciation is provided generally on the group plan using straight-line method, with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Normal maintenance and repairs are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the life of properties are capitalized and the assets replaced, if any, are retired.

Deferred Income Taxes

Provision is made in the Company's accounts to reflect the income tax effect applicable to transactions recorded in the Company's financial statements in a reporting period different from the period in which they are reported for income tax purposes.

The deferred income taxes shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Company's financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

Pension Plan

The Company's group pension plan is available to substantially all employees. The cost of pension benefits is amortized over the estimated service of the employees involved. As at December 31, 1977, costs which will be incurred in future years in respect of prior service amounted to approximately \$8,164,000 on a present value basis. These costs are being funded by annual payments of \$961,000 up to and including 1989.

Federal Government Oil Import Compensation Program

Compensation received or recoverable under the program for oil imported for consumption in Canada is deducted from cost of crude oil purchases. In order to be eligible for compensation the Company has maintained selling prices in accordance with Federal Government guidelines and the domestic crude oil allocation program.

Notes to Consolidated Financial Statements

(Dollars expressed in thousands)

1. Investments and Advances	1977	1976
Non-subsidiary companies accounted for:		
On equity basis	\$ 17,314	\$ 15,722
At cost	481	481
	\$ 17,795	\$ 16,203
Miscellaneous investments (at cost)		
Notes, mortgages and other long-term receivables	15,872	17,617
Total investments and advances	\$ 33,667	\$ 33,820

2. Long-Term Debt

The long-term debt of the Company at December 31, 1977 and 1976 is as follows:

	1977	1976
10¾% debentures, 1974 series, due 1994 (\$5,000 annual sinking fund requirement 1980-1993)	\$100,000	\$100,000
Due to affiliated company		
8⅞% Note, due \$25,000 annually 1981-1985	125,000	—
10¼% Note, due July 15, 1983	75,000	75,000
4% Notes, due U.S. \$1,000 annually to 1982 (1977 U.S. \$4,000; 1976 U.S. \$5,000)	4,311	5,388
Other	121	145
Total long-term debt	\$304,432	\$180,533

3. Directors' and Officers' Remuneration

Fees and other remuneration paid to directors and officers were as follows:

	1977	1976
Number of directors	17	15
Number of directors who receive fees as directors	15	13
Aggregate of such fees	\$ 65	\$ 58
Number of officers	12	14
Aggregate remuneration	\$ 849	\$ 936
Number of officers who are also directors	2	3

Auditors' Report

4. Commitments and Contingent Liabilities

At December 31, 1977, \$397,000 had been expended on the construction of a 95,000 barrels per day refinery at Nanticoke, Ontario. The project is estimated to be 85% complete at year-end and is expected to be fully operational by the fourth quarter of 1978.

As at December 31, 1977, the Company had non-cancellable leases expiring more than one year from such date covering service stations, office buildings, and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average approximately \$8,100 annually for the next five years.

Under certain service station lease agreements, the Company is contingently liable as guarantor for loans by third parties to the lessors which total \$22,131 as at December 31, 1977. Annual payments are due by the lessors from 1978 through 1982 of \$2,393, \$4,909, \$3,880, \$3,954, and \$4,032, respectively. The Company has an option to purchase certain service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies, the Company guarantees specified revenue from crude and refined products shipped. The Company may be required to advance funds against future transportation charges to certain companies in which stock interests are held, in the event such companies are unable to meet debt obligations. The contingent liability arising from such agreements, together with certain liabilities on bank loans, discounted notes, etc., amount to \$35,082 at December 31, 1977.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company's General Counsel, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

5. Federal Government Anti-Inflation Legislation

The Company has complied with all legal restraints from the inception of the Federal Government's anti-inflation legislation, and is in compliance in all activities relative to prices, profits, dividends, and compensation.

6. Event Subsequent to Date of Auditors' Report

On February 16, 1978, Texaco Exploration Canada Ltd. proposed an amalgamation with Texaco Canada Limited into a single Canadian company. This proposal is under active consideration.

To the Shareholders, Texaco Canada Limited:

We have examined the consolidated balance sheet of Texaco Canada Limited (a Canada corporation and a 68.17% owned subsidiary of Texaco International Financial Corporation) and subsidiary companies as of December 31, 1977 and 1976, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Limited and subsidiary companies as of December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis during the years.

Arthur Andersen & Co.,
Chartered Accountants

Toronto, Ontario
February 6, 1978

(except with respect to the matter discussed in Note 6, as to which the date is February 16, 1978).

Ten Year Review

Financial Summary

Year	Net Income (1)		Dividends Paid						Taxes Paid or Accrued and Deferred Income Taxes					
	Gross Income	Total	Per Common Share	Per Dollar of Gross Income	Common		Preferred		Property, Plant and Equipment Expenditures	Provision for Current and Deferred Income Taxes	Taxes Other than Income	Import Duties and Other Levies	Taxes Collected from Consumers	Total
					Total Cash	Per Share	Total Cash	Per Share						
	Millions	Millions			Millions		Millions		Millions	Millions	Millions	Millions	Millions	Millions
1977	\$1,082.8	\$36.7	\$3.76	3.4¢	\$15.2	\$1.56	\$0.2	\$4.00	\$187.0	\$29.6	\$75.8	\$49.1	\$302.0	\$456.5
1976	997.4	29.0	2.97	2.9	15.2	1.56	.2	4.00	175.3	31.9	64.8	42.2	306.8	445.7
1975	878.4	51.1	5.25	5.8	15.2	1.56	.2	4.00	141.8	52.3	57.5	39.0	265.6	414.4
1974	761.8	55.0	5.65	7.2	14.0	1.44	.2	4.00	53.8	47.3	40.4	31.7	204.7	324.1
1973	567.4	55.4	5.68	9.8	12.2	1.26	.2	4.00	31.0	39.9	46.0	12.7	212.6	311.2
1972	463.4	42.4	4.35	9.2	11.1	1.14	.2	4.00	30.6	28.9	36.6	9.7	184.4	259.6
1971	406.3	31.6	3.24	7.8	9.1	.94	.2	4.00	29.0	24.0	32.9	8.2	170.0	235.1
1970	352.8	24.7	2.53	7.0	8.5	.88	.2	4.00	23.5	21.8	29.5	7.3	159.1	217.7
1969	331.2	23.3	2.39	7.0	8.0	.82	.2	4.00	26.3	17.5	27.9	7.6	152.3	205.3
1968	310.5	21.0	2.14	6.8	7.2	.74	.2	4.00	23.4	17.4	26.2	4.9	137.6	186.1

Financial Condition at Year End

Year	Current Assets		Current Liabilities		Working Capital	Current Ratio	Total Assets	Long-Term Debt	Common Shareholders' Equity	
									Net Book Value	Per share at Year End
	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions	
1977	\$377.8	\$263.3	\$114.5	1.43	\$1,142.6	\$304.4	\$417.7	\$42.99		
1976	342.0	237.6	104.4	1.44	940.6	180.5	396.3	40.79		
1975	324.3	193.2	131.1	1.68	771.7	106.6	382.6	39.38		
1974	385.3	196.2	189.1	1.96	711.7	107.7	346.8	35.70		
1973	212.2	131.0	81.2	1.62	500.3	10.1	305.9	31.48		
1972	154.4	91.7	62.7	1.68	426.8	22.5	262.9	27.06		
1971	144.7	90.3	54.4	1.60	401.7	32.0	231.7	23.85		
1970	134.1	82.8	51.3	1.62	373.4	37.5	207.3	21.33		
1969	125.0	73.7	51.3	1.70	349.4	40.5	191.2	19.68		
1968	122.5	86.9	35.6	1.41	334.4	30.0	176.2	18.14		

Operations Summary

Year	in thousands of barrels daily					Shares		Shareholders		Employees	
	Production of Crude Oil and Natural Gas Liquids		Refinery Runs	Refinery Crude Oil Capacity	Petroleum Product Sales	Common	Preferred	Number at Year End		Number at Year End	Payrolls and Benefits
	Gross	Net						Common	Preferred		
						Thousands	Thousands				Millions
1977	28.1	18.2	157.5	163.5	173.6	9,715	38	4,664	534	3,853	\$79.0
1976	30.0	19.8	145.1	161.5	186.0	9,715	38	4,814	565	3,841	73.7
1975	33.5	22.5	143.0	160.0	181.7	9,715	38	5,036	589	3,856	64.8
1974	38.9	27.5	151.8	160.0	185.7	9,715	38	5,197	596	3,846	56.2
1973	41.3	35.8	149.9	156.5	193.3	9,715	38	5,173	627	3,705	48.2
1972	32.0	27.9	146.9	144.0	176.4	9,715	38	5,318	679	3,705	44.7
1971	26.4	22.9	144.6	142.0	161.3	9,715	38	5,400	715	3,608	40.5
1970	23.6	20.6	139.5	142.0	149.3	9,715	38	5,732	752	3,531	36.6
1969	21.4	18.6	134.8	129.5	141.7	9,715	38	5,898	783	3,481	33.2
1968	19.0	16.5	132.6	127.5	134.2	9,715	38	5,349	828	3,441	30.1

(1) Year 1969 includes extraordinary item of \$1,765,000 or \$0.18 per common share representing gain on sale of an office building and land.

Texaco Products

Texaco Canada markets a wide range of top quality products in all ten provinces. These include:

AUTOMOTIVE

SKY CHIEF gasoline
FIRE CHIEF gasoline
LEAD-FREE TEXACO gasoline
HAVOLINE SUPER PREMIUM motor oil
URSA motor oil
TEXACO ANTI-FREEZE AND COOLANT
MARFAK lubricants
TEXAMATIC transmission fluids
MULTIGEAR lubricants

AVIATION

AVJET jet fuels
SATO synthetic turbine oils
Aviation gasolines
Aircraft engine oils
Aircraft hydraulic oils
Aircraft greases

MARINE

OUTBOARD MOTOR OIL
Marine bunker fuels
Marine lubricants

FUEL OILS

DIESEL CHIEF
CRYSTALITE kerosene
Home heating fuels
Industrial fuels

INDUSTRIAL

Construction and mining equipment lubricants
Farm lubricants
Forest and paper industry lubricants
GEOTEX gas engine oils
REGAL turbine oil
RANDO hydraulic oil
Metalworking lubricants and coolants
Process oils
Railway lubricants
Steel mill lubricants
Textile mill lubricants
TEXSPRAY compound

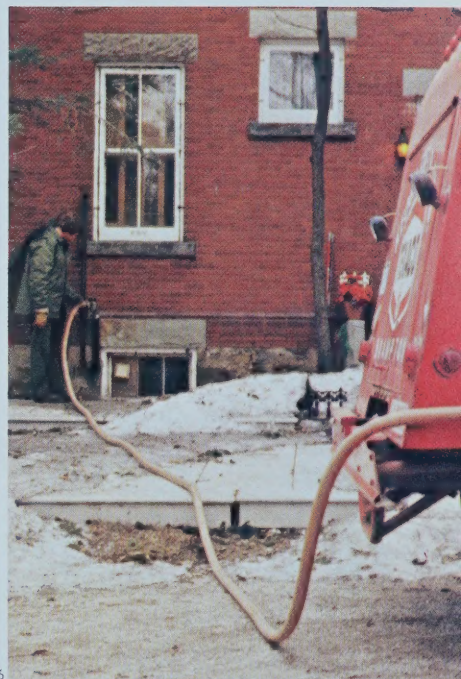
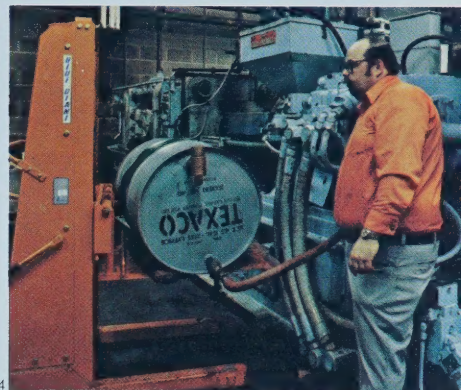
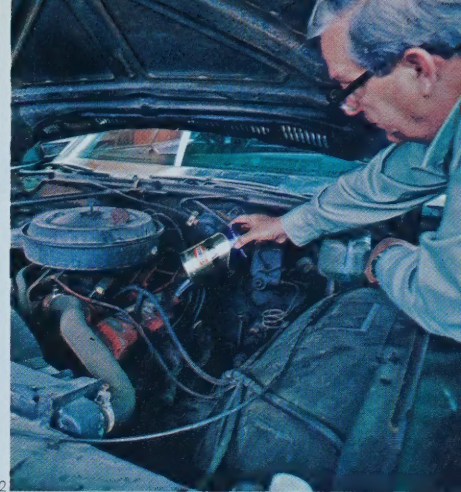
PETROCHEMICALS

Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Specialized solvents, such as:
SOLVEX
AROTEX
PARATEX

THE QUALITY LINE SPECIALTIES

OTHER

Liquefied petroleum gases
Rust proof compounds



1. Texaco retailers sell a line of quality automotive and household products.
2. HAVOLINE SUPER PREMIUM motor oil is a favorite with motorists.
3. Texaco DIESEL CHIEF fuel powers many truck fleets.

4. Texaco RANDO hydraulic oil, shown here being charged into a manufacturing plant's injection molding machine, has many industrial applications.
5. Texaco gasolines are sold at 3,900 service stations across Canada.
6. Texaco heating oil ensures home comfort.

Directors of Texaco Canada Limited



William S. Barrack, Jr.
Vice-President
Personnel and Corporate
Services
Texaco Inc.
White Plains, New York



Rodrigue J. Bilodeau
Chairman of the Board and
Chief Executive Officer
Honeywell Limited
Toronto



Jacques Bock
President and General
Manager
Bock and Tétreau Limitée
Montreal



.. Annon M. Card
Senior Vice-President
Texaco Inc.
White Plains, New York



** Stanley D. Clarke
President
Clarke Transportation
Canada Ltd.
Montreal



A.G. Farquharson
Retired, Formerly President
and Chief Executive Officer
Texaco Canada Limited
Bainville, Ontario



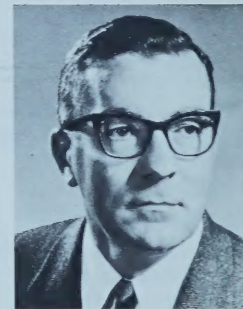
.. H.J. Lang
Chairman
Canron Limited
Montreal



** John I. Mingay
Retired, Formerly President
and Chief Executive Officer
Texaco Canada Limited
Hilton Head Island
South Carolina



* J. Lee Morrison
Executive Vice-President
Texaco Canada Limited
Toronto



* Paul Murdock
President
Murdock Lumber Inc.
Chicoutimi, Quebec



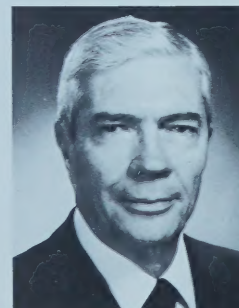
* The Hon. Victor deB. Oland
Chairman
Lindwood Holdings Limited
Halifax



Charles I. Rathgeb
Chairman and Chief
Executive Officer
Comstock International Ltd.
Toronto



** Neil M. Shaw
President and Chief
Executive Officer
Redpath Industries Ltd.
Montreal



.. R.W. Sparks
President and Chief
Executive Officer
Texaco Canada Limited
Toronto

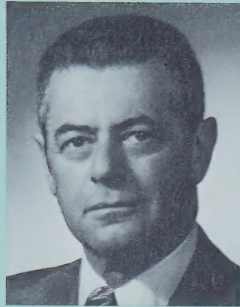


William K. Tell, Jr.
Vice-President
Texaco Inc.
Washington, D.C.

*Member of the Executive Committee

**Member of the Audit Committee

Other Officers



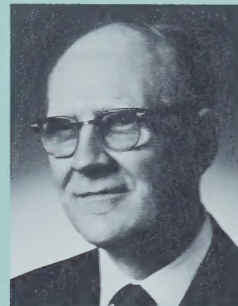
O.C. Cleyn
Vice-President, Eastern Canada
and Region Manager



A.J. Galipeault
Vice-President and General
Counsel



H.T. Hudson
Vice-President and Treasurer



J.G. Light
Vice-President, Refining



J.C. Wattie
Vice-President and General
Manager, Marketing



E.J. Little
Secretary



D.L. West
Comptroller

